SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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Q 36575

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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92-2244

For Quarter Ended January 25, 1992 Commission file number 0-12643

GANDALF TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

ONTARIO, CANADA	NOT APPLICABLE
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 COLONNADE ROAD SOUTH, NEPEAN, ONTARIO	K2E 7M4
(Address of principal executive offices)	(Postal Code)

Registrant's telephone number, including area code (613) 723-6500

NOT APPLICABLE

BEST COPY AVAILABLE

Former name, former address and former fiscal year, if changed since last report.

*Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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Q-Data Corp. - St. Petersburg, FL

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The number of shares outstanding as at February 29, 1992 was 15,671,907.

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GANDALF TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)
(Thousands of Canadian dollars)

July 31 1991*	Jan. 25 1992
ASSETS	
Current assets:	
Cash	$ 3,487
$ 3,197	
Short-term deposit certificates	261
2,947	
Accounts receivable (note 2)	55,602
35,220	
Inventories (note 3)	41,819
26,056	
Prepaid expenses	1,762
1,839	
Total current assets	102,931
69,259	
Fixed assets (note 4)	46,811
26,213	
Goodwill	5,132
5,610	
Deferred income taxes	9,322
8,332	
Net investment in sales-type leases	3,884
1,679	
Other assets	4,376
2,344	
Deferred merger costs	-
2,477	
Loan to Infotron	-
2,706	
Total assets	$172,456
$118,620	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Bank operating lines (note 5)	$ 15,427
$ 16,544	
Current portion of long-term bank indebtedness (note 5)	10,843
-	
Trade accounts payable	18,571
9,231	
Other payables and accrued liabilities	17,541
11,406	
Income and other taxes payable	2,089
1,435	
Deferred revenue	9,522
4,652	
Current portion of long-term debt	425
250	

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Total current liabilities	74,418	43,518
Long-term bank indebtedness (note 5)	25,221	-
Long-term debt	7,100	6,389
Total liabilities	106,739	49,907
Shareholders' equity:		
Capital stock:		
Common shares, 15,671,907 issued and outstanding (July 31, 1991, 12,195,375)	52,097	43,233
Retained earnings	13,633	27,514
Cumulative translation adjustment	(13)	(2,034)
Total shareholders' equity	65,717	68,713
Total liabilities and shareholders' equity	$172,456	$118,620

(See accompanying notes to consolidated financial statements)

* Prior to merger with Infotron Systems Corporation ("Infotron") on August 2, 1991.

GANDALF TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(Unaudited)
(Thousands of Canadian dollars)

26 Weeks Ended January 25			13 Weeks Ended January 25	
1992	1991*		1992	1991*
		INCOME		
		Revenues:		
$ 73,850	$ 60,902	Product revenue	$36,996	$ 28,475
26,412	14,059	Service revenue	13,387	7,479
100,262	74,961		50,383	35,954
		Operating expenses:		
39,378	27,172	Cost of product sales	20,345	12,681
15,170	9,380	Service expenses	7,855	4,720
29,736	24,935	Selling and distribution	15,070	12,851
8,707	7,261	Administration and general	4,399	4,354
15,041	9,654	Research and development	7,612	4,939
(1,453)	(1,370)	Investment incentives	(716)	(832)
3,795	790	Restructuring costs (note 6)	530	790
(10,112)	(2,861)	Loss from operations	(4,712)	(3,549)
(2,283)	(719)	Interest expense	(1,165)	(335)
346	454	Interest income	181	199
(26)	49	Foreign exchange gain (loss)	(292)	34
(1,003)	-	Financing costs (note 1)	-	-
-	662	Income taxes	-	892
$(13,078)	$ (2,415)	Net loss for the period	$(5,988)	$ (2,759)
		Basic loss per share (note 7)		
		RETAINED EARNINGS		
		Balance, beginning of period	$19,621	$ 34,617

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$ 27,514	$ 34,273		
Net loss for the period		(5,988)	(2,759)
(13,078)	(2,415)		
Share issue costs (note 1)		-	-
(803)	-		
--------	---------	--------	---------
Balance, end of period		$13,633	$ 31,858
$ 13,633	$ 31,858		
========	=========	========	=========

(See accompanying notes to consolidated financial statements)
* Prior to merger with Infotron on August 2, 1991.

GANDALF TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)
(Thousands of Canadian dollars)

Weeks Ended January 25	1992	26 1991*
Operating activities:		
Cash provided by (applied to) operations (note 8)	$(4,994)	$ 936
Increase in operating working capital (note 9)	(6,047)	(433)
Cash provided by (applied to) operations	(11,041)	503
Financing activities:		
Increase in bank operating lines	1,040	506
Increase in long-term bank indebtedness	9,065	-
Increase in long-term debt	-	133
Long-term debt retirement	(246)	(62)
Issue of capital stock	8,864	-
Cash provided by financing activities	18,723	577
Investing activities:		
Investment in Infotron net of cash acquired (note 1)	(10,682)	-
Loan to Infotron prior to merger (note 5)	(749)	-
Loan to Infotron converted to equity upon merger (note 5)	3,455	-
Merger costs	(451)	-
Purchase of fixed assets	(1,588)	(1,189)
Investments	-	(942)
Net investment in leases	127	(106)
Other	(115)	(276)

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Cash applied to investing activities	(2,513)	(10,003)
Decrease in cash in the period	(1,433)	(2,321)
Effect of currency translation adjustments on cash flows	298	(75)
Cash and short-term deposit certificates, beginning of period	9,584	6,144
Cash and short-term deposit certificates, end of period	$ 8,449	$ 3,748

(See accompanying notes to consolidated financial statements)
* Prior to merger with Infotron on August 2, 1991.

GANDALF TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All amounts stated in Canadian dollars ("$" or "C$") unless otherwise indicated)

1. MERGER WITH INFOTRON SYSTEMS CORPORATION

On August 2, 1991, the Company's United States subsidiary, Gandalf Data, Inc. completed a merger with Infotron Systems Corporation ("Infotron"), an international data communications company headquartered in Cherry Hill, New Jersey, U.S.A. Infotron, incorporated in 1968, designed, manufactured, marketed and serviced data, voice and image networks utilized by corporations, institutions and public entities worldwide. Its principal products included data/voice network exchanges, multiplexers, LAN servers and bridges and network management systems. Concurrent with the merger the United States company was renamed Gandalf Systems Corporation ("GSC").

The issued and outstanding common shares of Infotron which prior to the merger had been publicly traded on the NASDAQ/NMS market in the United States, together with the issued and outstanding preferred shares of Infotron, were converted into the right to receive 2,612,532 common shares of Gandalf. In addition, in a transaction related to the merger, the holders of certain promissory notes of Infotron and warrants to purchase Infotron preferred stock were issued 864,000 common shares of Gandalf Technologies Inc. ("Gandalf") in exchange for the surrender of the warrants and a 90% reduction in the principal amount of the notes to be issued by GSC from U.S.$3.0 million to U.S.$0.3 million.

Share issue costs of $0.8 million were charged directly to consolidated retained earnings in the first quarter of fiscal 1992. Costs of $2.1 million associated with the merger transaction were included in the determination of the consideration paid to acquire Infotron for purposes of establishing the acquisition equation under the purchase method of accounting.

Additional costs of $1.6 million were incurred to establish credit facilities for the merged company. Of this amount, $0.6 million was identified as fees which are typical of the costs that would be anticipated to occur in the course of raising such additional bank financing and which are required to be deferred and amortized over the term of the loan financing. The complexities associated with the security arrangements required by the Company's two primary lenders resulted

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in additional
costs of $1.0 million being incurred, primarily in the form of
professional fees.
In evaluating these costs the Company determined that they were not
indicative of
the underlying financing arrangements, they represented a
disproportionate amount of
the incremental financing raised through establishing the
facilities and they did
not represent any future ongoing value to the Company.
Accordingly, these excess
costs were charged to earnings in the first quarter of fiscal 1992
and appeared on
the consolidated statement of income as financing costs.

2. ACCOUNTS RECEIVABLE

July 31 1991	Jan. 25 1992
	(Thousands of dollars)
Trade	$51,038
$31,938	
Contract	3,430
2,698	
Current portion of sales-type leases	1,134
584	
	$55,602
$35,220	

3. INVENTORIES

July 31 1991	Jan. 25 1992
	(Thousands of dollars)
Raw materials	$10,516
$ 6,793	
Work-in-process	8,000
3,683	
Finished goods	23,303
15,580	
	$41,819
$26,056	

4. FIXED ASSETS

July 31 1991	Jan. 25 1992
	(Thousands of dollars)
Cost:	
Land	$ 892
$ 859	
Buildings	11,487
11,144	

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Equipment	85,008	58,150
Leasehold improvements	3,847	1,490
	101,234	71,643
Accumulated depreciation	54,423	45,430
Net book value	$46,811	$26,213

5. BANK INDEBTEDNESS

In connection with the execution of the merger agreement, Gandalf and Infotron entered into a loan agreement dated May 10, 1991 pursuant to which Gandalf agreed to loan Infotron on a secured basis up to U.S.$3.0 million (C$3.5 million) for working capital purposes prior to the completion of the merger. Prior to July 31, 1991, Gandalf arranged with the Royal Bank of Canada ("RBC") an interim credit facility for U.S.$3.0 million (C$3.5 million) to fund the working capital loan to Infotron. At July 31, 1991, Gandalf had drawn U.S.$2.35 million (C$2.7 million) under the interim credit facility and advanced these funds to Infotron under the working capital loan. On August 2, 1991, concurrent with the merger, a further U.S.$650,000 was advanced to Infotron, bringing the total to U.S.$3.0 million and the working capital loan was then converted to equity in the merged United States company.

Upon merger, a term credit facility for U.S.$15.0 million (C$17.5 million) was established with the Royal Bank of Canada (the "RBC Facility") to fund merger costs and integration expenses, repay certain existing bank indebtedness and replace the $3.5 million interim credit facility which had been arranged to fund the working capital loan to Infotron. The availability of the RBC Facility is subject to a margining formula based on accounts receivable, inventory and fixed assets of certain of Gandalf's subsidiaries. It bears interest at fluctuating rates between 0.25% and 2.25% above bank prime based on certain financial criteria and is secured by substantially all of the assets of the Company and a pledge of the capital stock and a guarantee of substantially all of Gandalf's subsidiaries. The term facility, which has a final maturity date of December 31, 1994 is repayable in ten equal quarterly installments commencing on September 30, 1992. The maximum commitment under the term credit facility reduces in stages by approximately 8% per quarter from January 1, 1992 until the date of the first principal repayment on September 30, 1992. Accordingly, the authorized amount of the RBC Facility was reduced from U.S.$15.0 million to U.S.$13.8 million on January 1, 1992 and a further reduction to U.S.$12.7 million will occur on April 1, 1992. Under the margining requirements of the RBC Facility, approximately $16.2 million was available to Gandalf for borrowing at January 25, 1992, of which $13.3 million was being utilized.

The credit agreement between Infotron and Chase Manhattan Bank

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N.A., as agent ("Chase"), under which Infotron had been in default prior to merger, was amended and restructured on August 2, 1991. The amended credit facility (the "Chase Facility") between GSC and Chase had an initial principal amount of U.S.$20.1 million (C$23.5 million) following a repayment of U.S.$1.0 million on August 2, 1991. During the first six months of fiscal 1992, the Company repaid a further U.S.$0.6 million to Chase based on the sale of certain assets specified in the credit agreement. The Chase Facility, which has a final maturity date of November 1, 1994 is repayable in quarterly installments commencing August 1, 1992. The initial principal repayment amount is U.S.$3.1 million (C$3.6 million) on August 1, 1992 followed by eight quarterly installments of U.S.$2.0 million (C$2.3 million) each. Any remaining outstanding principal amounts will become due on November 1, 1994. The Chase Facility, which is prepayable without penalty at the option of GSC, bears interest at fluctuating rates varying between 2.0% and 3.5% above a base rate which is the greater of the prime rate charged by Chase and the U.S. Federal Funds Rate plus 50 basis points. The rate in excess of the base rate is 2.0% until January 31, 1993, following which the rate increases by 0.25% each quarter until May 1, 1994. The Chase Facility is secured by a first lien on the assets of GSC and its United States

subsidiaries and a pledge of the capital stock and a guarantee by subsidiaries in
Belgium, Italy and Sweden. In addition, the Chase Facility is secured by a second
or third lien on substantially all of the other assets of the Company. Interest
accruing on the Chase Facility is guaranteed on an unsecured basis by Gandalf until
August 1, 1992.

The Company's authorized bank operating lines at January 25, 1992 totalled $18.2 million. At that time, under margining requirements based on the level of trade accounts receivable, inventories and other bank covenants, $16.2 million was available to the Company, of which $15.4 million was being utilized. Cash and short-term deposit certificates represented a further $3.7 million in available cash resources.

On January 25, 1992 the Company had total authorized term and operating credit facilities of $57.2 million. The amount available to the Company based on margining formulas and other bank covenants was $55.2 million. Total borrowings under these facilities were $47.7 million net of cash reserves.

The Company has agreed to certain financial covenants in connection with the RBC Facility, the Chase Facility and certain operating loan agreements with RBC (the "RBC Operating Loans"). At the time of entering into these credit agreements, concurrent with the merger on August 2, 1991, it was not practicable to determine the details of Infotron assets purchased and liabilities assumed pending the resolution of certain accounting matters associated with applying the purchase method of accounting to the merger transaction. Accordingly, covenants measuring the estimated tangible net worth of the merged company (tangible assets minus liabilities) were established based on estimated amounts for Infotron as at August 2, 1991 and anticipated costs of completing the merger. The resolution of the outstanding accounting matters relating to the application of the purchase method and other adjustments based on the actual financial position of Infotron on August 2, 1991 resulted in a reduction in the Company's tangible net worth as of the date of merger and consequently also as of October 26, 1991 which led to a breach of certain financial covenants at the end of the first quarter of fiscal 1992. Subsequent to the end of the first quarter of fiscal 1992, the Company negotiated amendments to the financial covenants contained in the RBC Facility, the Chase Facility and the RBC Operating Loans to reestablish compliance at October 26, 1991. At January 25, 1992, the Company was in compliance with the terms of these credit facilities.

6. RESTRUCTURING COSTS

Restructuring costs in the first six months of the 1992 fiscal year were $3.8 million. This amount represents severance costs associated with

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eliminating positions within the Company relating to the integration of manufacturing, administration and research and development following the merger. The Company's workforce has been reduced by approximately 14%, representing approximately 260 positions, from the total that existed at August 2, 1991 following the merger.

During fiscal 1991, in response to anticipated revenues for the second half of that year which were below the Company's break-even level at that time, the size of the work force in all areas was reduced in February 1991. Severance costs of $0.8 million relating to these terminations were recorded in operating results for the second quarter of fiscal 1991.

7. LOSS PER SHARE

26 Weeks Ended January 25		13 Weeks Ended January 25	
1992	1991	1992	1991
Basic loss per share $(0.84)	$(0.20)	$(0.39)	$(0.23)

Loss per share figures are calculated using the monthly weighted average number of common shares outstanding for the period.

	1992	1991
First quarter weighted average number of shares outstanding (87 days)	15,631,947	12,195,375
Second quarter weighted average number of shares outstanding (91 days)	15,671,907	12,195,375
First half weighted average number of shares outstanding (178 days)	15,652,376	12,195,375

8. CASH PROVIDED BY (APPLIED TO) OPERATIONS

Cash provided by (applied to) operations is computed as follows:

	26 Weeks Ended January 25	
	1992	1991
	(Thousands of dollars)	
Loss from operations	$(10,112)	$(2,861)
Depreciation and amortization	8,181	

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4,599	Income taxes	(1,100)	
(586)	Interest expense	(2,283)	
(719)	Interest income	346	
454	Foreign exchange gain (loss)	(26)	
49			
		$(4,994)	$
936			

9. INCREASE IN OPERATING WORKING CAPITAL

The increase in operating working capital is computed as follows:

	26 Weeks Ended January 25	
	1992	1991
	(Thousands of dollars)	
Accounts receivable	$(4,182)	$ 3,702
Inventories	(2,953)	(2,199)
Prepaid expenses	846	360
Trade accounts payable	(872)	(2,856)
Other payables and accrued liabilities	(2,916)	(320)
Deferred revenue	3,049	3
Foreign currency equity adjustment	981	877
	$(6,047)	$ (433)

10. COMPARATIVE FIGURES

Certain comparative figures for the 1991 fiscal periods have been reclassified to conform with the presentation adopted for the fiscal 1992 periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The consolidated financial statements for the second quarter ended January 25, 1992 include the accounts of Gandalf Technologies Inc. ("Gandalf") and its subsidiaries (on a consolidated basis, the "Company").

The consolidated financial statements, notes to the consolidated financial statements and supplementary data should be read as an integral part of this review. These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, the application of which, in the case of the Company, conforms in all material respects for the periods presented, with accounting principles generally accepted in the United States and the International Accounting Standards for historical costs. All amounts are stated in Canadian dollars ("$" or "C$") unless otherwise indicated.

Merger with Infotron, August 2, 1991

On August 2, 1991, the Company's United States subsidiary, Gandalf Data, Inc. completed a merger with Infotron Systems Corporation ("Infotron"), an international data communications company headquartered in Cherry Hill, New Jersey, U.S.A. Concurrent with the merger the United States company was renamed Gandalf Systems Corporation ("GSC").

Infotron's revenues for the year ended December 31, 1990 and for the three months ended March 31, 1991 were U.S.$84.4 million and U.S.$18.5 million respectively. Total assets at March 31, 1991 were U.S.$67.8 million and shareholders' equity at that date was U.S.$18.1 million. The acquisition of Infotron by the Company, which has been accounted for using the purchase method, has had a significant impact on the operating results of the Company during the first half of the 1992 fiscal year. The operating results of Infotron have been consolidated with those of the Company from August 2, 1991 onward, representing virtually the entire twenty-six week fiscal period ended January 25, 1992. The Company has changed its fiscal year end from July 31 to March 31 and accordingly, the 1992 fiscal year ending March 31, 1992 will be eight months in duration.

Summary Discussion - Operating Results for the Twenty-six Weeks Ended January 25, 1992

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The Company believes that following a period of integration, the anticipated benefits of the merger with Infotron will include a strengthening of the Company from both a financial and operational viewpoint and an opportunity for the Company to increase its activities in the wide area network ("WAN") market segment. The Company anticipates that the merger will provide the Company with opportunities to develop a more significant presence in the United States market, expand into additional European countries and develop a larger distributor network in Asia, Pacific Rim countries and the Far East. In addition, economies of scale are anticipated to occur in the areas of manufacturing and administration following the period of integration which, it is currently anticipated, will be approximately twelve months in duration from the date of the merger.

During the first twenty-six weeks of the current fiscal year, the Company recorded revenues of $100.3 million versus $75.0 million during the same period in fiscal 1991. However, revenues achieved in the current fiscal year were below levels previously anticipated, primarily in the second quarter. As a result of the lower than anticipated revenues, the loss from operations of $10.1 million for the first twenty-six weeks following the merger, of which $4.7 million occurred during the second quarter, was higher than anticipated.

The Company had anticipated that losses would occur during the first six months of fiscal 1992 due to higher costs as a result of the merger, including the duplication of certain operating costs, increased interest costs on higher levels of bank indebtedness arising from the merger and other costs associated with integrating the Company's merged operations.

The Company has taken steps since the merger to rationalize its operations in all areas in order to reduce the level of operating expenses by the end of the integration period. The operating loss of $10.1 million for the first two quarters of fiscal 1992 includes costs of approximately $1.0 million relating to superfluous facilities as a result of the merger. Following the end of the second quarter, the Company completed the sale of its 149,000 square foot facility in Wheeling, Illinois. Space requirements for the remaining staff in the Chicago area are expected to be approximately 22,000 square feet. With the transfer to Nepean, Ontario of the manufacturing activity formerly located at Infotron's facility in Cherry Hill, New Jersey, certain leased space has become redundant. The Company is actively pursuing opportunities to sublet this space.

Approximately 260 redundant staff positions in manufacturing, engineering and administration have been eliminated during the six months since the merger and accordingly, following notice periods which will expire before the end of the integration period, reductions in operating costs will be achieved.

The Company believes that the anticipated benefits arising from the merger remain attainable. From an operational viewpoint the Company has achieved many of the internal targets for completing certain phases of the integration in the areas of manufacturing, engineering, administration and systems and communications. While the financial benefits of the merger are as yet unrealized, the Company believes it can

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achieve improved operating results which could be further enhanced by some easing of recessionary pressures and an improvement in the general economic conditions in the Company's major geographic markets by the end of the twelve month integration period.

Results of Operations - Quarter Ended January 25, 1992

The following table sets forth items derived from the quarterly consolidated statement of income as a percentage of revenues for each of the five quarters ended January 25, 1992. The column in the table entitled "Percentage Change 2nd Qtr 1991 to 2nd Qtr 1992" represents the percentage increase (decrease) in the dollar amount of such items for the second quarter of fiscal 1992 compared with the second quarter of fiscal 1991. Certain comparative figures for fiscal 1991 have been reclassified to conform with the fiscal 1992 presentation.

2nd Qtr 1992*	Percentage Change 2nd Qtr 1991 to 2nd Qtr 1992	2nd Qtr 1991	3rd Qtr 1991	4th Qtr 1991	1st Qtr 1992*
		(Thousands of dollars)			
$50,383	40.1%	$35,954	$37,291	$36,329	$49,879
		(Percentage of Revenues)			
Revenues:					
Product 73.4%	29.9	79.2%	80.6%	80.2%	73.9%
Service 26.3	79.0	20.8	19.4	19.8	26.1
100.0%		100.0%	100.0%	100.0%	100.0%
Gross Profit:					
Product 45.0%	5.4	55.5%	54.4%	48.7%	48.4%
Service 41.3	100.5	36.9	30.6	31.5	43.8
Combined 44.0	19.6	51.6	49.8	45.3	47.2
Expenses:					
Selling & distribution 29.9	17.3	35.7	30.9	32.3	29.4
Administration & general 8.7	1.0	12.1	7.4	11.6	8.6
Research & development 15.1	54.1	13.7	13.1	13.4	14.9
Investment incentives (1.4)	(13.9)	(2.3)	(2.9)	(2.9)	(1.4)
Restructuring costs 1.1	(32.9)	2.2	-	-	6.5
Income (loss) from operations (9.4)		(9.9)	1.3	(9.1)	(10.8)
Financial expenses (2.5)		(0.3)	(0.3)	(0.8)	(1.4)
Financing costs -		-	-	-	(2.0)
Income taxes -		2.5	(0.8)	(2.3)	-

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Net income (loss)	(7.7)%	0.2%	(12.2)%	(14.2)%
(11.9)%				

* Amounts shown for fiscal 1992 include combined operating results for the period following the merger with Infotron on August 2, 1991.

Revenues

The following table sets forth revenues by geographic segment for the quarter ended January 25, 1992 and for each of the preceding four quarters. The table also includes the change in revenues in percentage terms in the second quarter of fiscal 1992 over the corresponding period of fiscal 1991.

Percentage Change 2nd Qtr 1991 to 2nd Qtr 1992	2nd Qtr 1991	3rd Qtr 1991	4th Qtr 1991	1st Qtr 1992*	2nd Qtr 1992*
	(Thousands of dollars)				
United States 96.2%	$ 7,745	$ 7,331	$ 9,751	$15,405	$15,198
Europe 21.7	15,333	16,466	13,388	20,119	18,656
Canada 6.9	11,340	12,548	11,801	8,749	12,120
Other markets 187.0	1,536	946	1,389	5,606	4,409
40.1	$35,954	$37,291	$36,329	$49,879	$50,383

* Amounts shown for fiscal 1992 include combined revenues following the merger with Infotron on August 2, 1991.

The Company's revenues for the second quarter of fiscal 1992 were $50.4 million compared to $49.9 million during the first quarter of fiscal 1992 and $36.0 million in the second quarter of fiscal 1991. The Company is continuing to experience soft demand for its products in light of uncertain economic conditions in the United States and certain European countries.

Product revenues for the second quarter of fiscal 1992 were $37.0 million, virtually unchanged from the $36.9 million figure attained in the first quarter of the current year. In the second quarter of fiscal 1991, product revenue was $28.5 million. Service revenue increased from $13.0 million in the first quarter of fiscal 1992 to $13.4 million in the second quarter. During the second quarter of

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fiscal 1991
service revenue was $7.5 million. Product revenue in the second quarter of the
current year comprised 73.4% of total revenues and 26.6% was represented by
service. This mix of revenues was comparable to the first quarter of fiscal 1992
where 73.9% of revenues were derived from the sale of products and the balance was
represented by service. Prior to the merger, the proportion of total revenues which
were represented by product sales had been approximately 80% in each of the four
quarters of fiscal 1991. The change to approximately 74% of total revenues in the
first half of the current fiscal year has occurred as a result of the merger with
Infotron. Infotron had historically earned a higher proportion of its revenues from
service than had been the case with the Company. The mix of revenues between
product and service is expected to continue at or near its present level during the
foreseeable future.

The increase in revenues during the first and second quarters of fiscal 1992, compared with pre-merger levels, in the United States, Europe and Other Markets has primarily resulted from the merger with Infotron.

Revenues in the United States market during the second quarter of fiscal 1992 were $15.2 million, compared to $15.4 million in the first quarter of fiscal 1992 and $7.7 million in the second quarter of fiscal 1991. Revenues in the United States represented slightly more than 30% of the Company's total revenues in each of the first two quarters of fiscal 1992 compared to 23.8% for the 1991 fiscal year. The Company expects a moderate increase in business levels in the United States in the near term compared to revenues achieved during the first and second quarters of fiscal 1992.

The Company's revenues in Europe showed a decline in the second quarter of fiscal 1992 compared to the first quarter. The European market primarily comprises sales in the United Kingdom ("U.K."), the Netherlands and France. European revenues in the second quarter of fiscal 1992 were $18.7 million, down from $20.1 million in the first quarter of fiscal 1992, representing a 7.3% decline. When the foreign denominated amounts are translated at constant exchange rates, the decline in the second quarter increases to 13.8%. Most of the reduction in revenues in Europe during the second quarter of fiscal 1992 occurred in the U.K. where revenues declined from $13.4 million to $12.2 million. Revenues in the U.K. continue to be adversely affected by recessionary economic conditions and the Company does not anticipate an increase in revenues in the U.K. above the level experienced in the first half of fiscal 1992 in the near term. In the second quarter of fiscal 1991, revenues in Europe were $15.3 million.

Revenues in the Company's "Other Markets" (Pacific Rim countries, Asia and the Middle East) were $4.4 million in the second quarter of fiscal 1992, $1.2 million lower than in the first quarter of the current fiscal year.

Revenues in Canada increased 38.5% to $12.1 million during the second quarter of fiscal 1992 compared to the first quarter of fiscal 1992. The increase was 6.9% over revenues of $11.3 million earned in the second quarter of fiscal 1991. The Company anticipates that revenues in Canada will remain at or near the level experienced in the second quarter of fiscal 1992 for the foreseeable future.

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The third quarter of the Company's 1992 fiscal year has been shortened to nine weeks as a result of the change in the fiscal year end to March 31, and accordingly revenues in the third quarter will be lower than the level achieved in the second quarter.

Gross Profit

The Company earned a gross profit of $22.2 million during the second quarter of fiscal 1992 compared to $23.5 million during the first quarter of fiscal 1992 and $18.6 million during the second quarter of fiscal 1991. The gross profit on product revenue (product revenue minus product cost of sales) represented 45.0% of product revenue during the second quarter of fiscal 1992 compared to 48.4% in the first quarter of fiscal 1992 and 55.5% in the second quarter of fiscal 1991, prior to the merger.

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The decline in gross profit during the second quarter of fiscal 1992, compared to the first quarter, has been attributed to a change in the mix of products sold and higher adverse manufacturing variances. During the second quarter, as a result of existing supply contracts, a higher proportion of revenues were derived from the sale of products manufactured by third parties, related to system sales, which yield lower margins. New product introductions have also had an impact on the gross margins. Manufacturing costs during the current fiscal year include the costs of excess capacity and now redundant positions as a result of the merger, as discussed earlier, leading to higher variances from standard. In addition, manufacturing variances in the second quarter were higher as a result of lower manufacturing volumes.

The gross profit on service revenue (service revenue minus service expenses) was $5.5 million in the second quarter of fiscal 1992, slightly lower than the $5.7 million earned in the first quarter of the current year. Expressed as a percentage of service revenues, the respective amounts for the two quarters were 43.8% and 41.3%. Both amounts compare favourably with the pre-merger level of 32.1% during the 1991 fiscal year. The stronger performance in this area since the merger is attributed to the significant increase in service revenue without a corresponding increase in the cost to provide such service.

Selling and Distribution

Selling and distribution expenses for the second quarter of fiscal 1992 were $15.1 million compared to $14.7 million in the first quarter of fiscal 1992 and $12.9 million in the second quarter of fiscal 1991. Expressed as a percentage of revenues, the respective amounts for each of the three quarters are 29.9%, 29.4% and 35.7%. The Company anticipates that some reduction in the proportion of revenues spent in the selling and distribution area will be achieved following the integration period.

Administration and General

Administration and general expenses were $4.4 million during the second quarter of fiscal 1992, virtually unchanged from the $4.3 million incurred in the first quarter of fiscal 1991. Both amounts represent approximately 8.7% of revenues. In the second quarter of fiscal 1991, administration and general expenses

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were $4.4 million
or 12.1% of revenues. This latter amount included a provision of
$1.1 million
representing a guarantee by the Company in connection with a
default by a customer
under a third party lease.

Research and Development

Research and development expenses during the second quarter of fiscal 1992 were $7.6 million representing 15.1% of revenues. These amounts are virtually unchanged from the $7.4 million and 14.9% figures experienced during the first quarter of the current year. In the second quarter of fiscal 1991 research and development expenses were $4.9 million representing 13.7% of revenues. The Company believes that the level of research and development expenses in the first half of fiscal 1992 exceeds the amount that will be supportable by anticipated revenues in the foreseeable future. At the end of the first quarter, the Company eliminated forty research and development positions relating primarily to mature product lines. However, as a result of experiencing lower than anticipated revenues in the second quarter of fiscal 1992 and the continuation of salary costs during the notice period for terminated employees, these expenses did not decline in proportion to total revenues. The Company is exploring additional ways to narrow the focus of its research and development activities in order to reduce the proportion of revenues spent in this area to a level comparable to that which existed prior to the merger.

Investment incentives, representing research and development tax credits and other Canadian federal government funding were $0.7 million in each of the first two quarters of fiscal 1992. In the second quarter of fiscal 1991, investment incentives were $0.8 million. Investment incentives have declined to approximately 10% of research and development expenses during fiscal 1992, compared to approximately 18% during the 1991 fiscal year. This decline has occurred due to a higher proportion of research and development being undertaken in the United States as a result of the merger.

Restructuring Costs

Restructuring costs in the first six months of the 1992 fiscal year were $3.8 million. This amount represents severance costs associated with eliminating positions within the Company relating to the integration of manufacturing, administration and research and development following the merger. The Company's workforce has been reduced by an approximately 14%, representing approximately 260 positions, from the total that existed at August 2, 1991 following the merger.

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During fiscal 1991, in response to anticipated revenues for the second half of that year which were below the Company's break-even level at that time, the size of the work force in all areas was reduced in February 1991. Severance costs of $0.8 million relating to these terminations were recorded in operating results for the second quarter of fiscal 1991.

Financial Expenses

Net financial expenses (interest expense, net of interest income and foreign exchange gains or losses) were $1.3 million in the second quarter of fiscal 1992. In the first quarter of fiscal 1992, these expenses totalled $0.7 million and in the second quarter of fiscal 1991 they were $0.1 million. Higher interest costs have occurred in the first two quarters of the current year as a result of the increase in bank indebtedness, on a combined basis, following the merger with Infotron and additional borrowings that have occurred in connection with the integration of the merged company's operations. Interest expense in the foreseeable future will continue to be significantly greater than levels experienced by the Company prior to the merger.

Income Taxes

No provision for income taxes was recorded during the first half of fiscal 1992 as a result of the operating loss in the period. In the second quarter of fiscal 1991, an income tax benefit of $0.9 million was recorded on the net operating losses incurred in jurisdictions where the Company believes that the future realization of the potential tax benefit is reasonably assured.

Net Loss

During the second quarter ended January 25, 1992, the consolidated net loss was $6.0 million or $0.39 per share versus the net loss of $2.8 million or $0.23 per share in the second quarter of fiscal 1991. The corresponding loss amounts for the first six months of the current year are $13.1 million or $0.84 per share. The half-year results for the 1991 fiscal year were a net loss of $2.4 million, representing $0.20 per share. As described earlier, the Company had anticipated that net losses would occur during the integration period following the merger primarily as a result of severance costs and associated restructuring costs, the duplication of certain operating costs within the merged company and increased interest costs associated with higher levels of bank borrowings. The primary factors leading to the higher loss in the second quarter of fiscal 1992 compared to the first quarter, exclusive of restructuring charges and financing costs relating to the merger, were the decrease in the gross profit on product revenues of $1.2 million, the increase in operating expenses for selling and distribution, and research and development, and an increase in net financial expenses of $0.6 million as a result of higher levels of bank borrowings and adverse foreign exchange movements. The Company reported a loss of $7.1 million or $0.45 per share for the first quarter of fiscal 1992. Contributing to the loss in the first quarter of fiscal 1992 were restructuring costs of $3.3 million and financing costs of $1.0 million relating to completing the merger. The anticipated economies of scale resulting from the merger are not expected to occur before the end of the integration period.

Merger Costs

Share issue costs of $0.8 million were charged directly to consolidated retained earnings in the first quarter of fiscal 1992. Costs of $2.1 million associated with the merger transaction were included in the determination of the consideration paid

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to acquire Infotron for purposes of establishing the acquisition equation under the purchase method of accounting.

Additional costs of $1.6 million were incurred to establish credit facilities for the merged company. Of this amount, $0.6 million was identified as fees which are typical of the costs that would be anticipated to occur in the course of raising such additional bank financing and which are required to be deferred and amortized over the term of the loan financing. The complexities associated with the security arrangements required by the Company's two primary lenders resulted in additional costs of $1.0 million being incurred primarily in the form of professional fees. In evaluating these costs, the Company determined that they were not indicative of the underlying financing arrangements, they represented a disproportionate amount of the incremental financing raised through establishing the facilities and they did not represent any future ongoing value to the Company. Accordingly, these excess costs were charged to earnings in the first quarter of fiscal 1992 and appeared on the consolidated statement of income as financing costs.

Liquidity and Capital Resources

In connection with the execution of the merger agreement, Gandalf and Infotron entered into a loan agreement dated May 10, 1991 pursuant to which Gandalf agreed to loan Infotron on a secured basis up to U.S.$3.0 million (C$3.5 million) for working capital purposes prior to the completion of the merger. Prior to July 31, 1991, Gandalf arranged with the Royal Bank of Canada ("RBC") an interim credit facility for U.S.$3.0 million (C$3.5 million) to fund the working capital loan to Infotron. At July 31, 1991, Gandalf had drawn U.S.$2.35 million (C$2.7 million) under the interim credit facility and advanced these funds to Infotron under the working capital loan. On August 2, 1991, concurrent with the merger, a further U.S.$650,000 was advanced to Infotron, bringing the total to U.S.$3.0 million and the working capital loan was then converted to equity in the merged United States company.

Upon merger, a term credit facility for U.S.$15.0 million (C$17.5 million) was established with the Royal Bank of Canada (the "RBC Facility") to fund merger costs and integration expenses, repay certain existing bank indebtedness and replace the $3.5 million interim credit facility which had been arranged to fund the working capital loan to Infotron. The availability of the RBC Facility is subject to a margining formula based on accounts receivable, inventory and fixed assets of certain of Gandalf's subsidiaries. It bears interest at fluctuating rates between 0.25% and 2.25% above bank prime based on certain financial criteria and is secured by substantially all of the assets of the Company and a pledge of the capital stock and a guarantee of substantially all of Gandalf's subsidiaries. The term facility, which has a final maturity date of December 31, 1994 is repayable in ten equal quarterly installments commencing on September 30, 1992. The maximum commitment under the term credit facility reduces in stages by approximately 8% per quarter from January 1, 1992 until the date of the first principal repayment on September 30, 1992. Accordingly, the authorized amount of the RBC Facility was reduced from U.S.$15.0 million to U.S.$13.8 million on January 1, 1992 and a further reduction to U.S.$12.7 million will occur on April 1, 1992. Under the margining requirements of the RBC Facility, approximately $16.2 million was available to Gandalf for borrowing at January 25, 1992, of which $13.3 million was being utilized.

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N.A., as agent ("Chase"), under which Infotron had been in default prior to merger, was amended and restructured on August 2, 1991. The amended credit facility (the "Chase Facility") between GSC and Chase had an initial principal amount of U.S.$20.1 million (C$23.5 million) following a repayment of U.S.$1.0 million on August 2, 1991. During the first six months of fiscal 1992, the Company repaid a further U.S.$0.6 million to Chase based on the sale of certain assets specified in the credit agreement. The Chase Facility, which has a final maturity date of November 1, 1994 is repayable in quarterly installments commencing August 1, 1992. The initial principal repayment amount is U.S.$3.1 million (C$3.6 million) on August 1, 1992 followed by eight quarterly installments of U.S.$2.0 million (C$2.3 million) each. Any remaining outstanding principal amounts will become due on November 1, 1994. The Chase Facility, which is prepayable without penalty at the option of GSC, bears interest at fluctuating rates varying between 2.0% and 3.5% above a base rate which is the greater of the prime rate charged by Chase and the U.S. Federal Funds Rate plus 50 basis points. The rate in excess of the base rate is 2.0% until January 31, 1993, following which the rate increases by 0.25% each quarter until May 1, 1994. The Chase Facility is secured by a first lien on the assets of GSC and its United States

subsidiaries and a pledge of the capital stock and a guarantee by subsidiaries in
Belgium, Italy and Sweden. In addition, the Chase Facility is secured by a second
or third lien on substantially all of the other assets of the Company. Interest
accruing on the Chase Facility is guaranteed on an unsecured basis by Gandalf until
August 1, 1992.

The Company's authorized bank operating lines at January 25, 1992 totalled $18.2 million. At that time, under margining requirements based on the level of trade accounts receivable, inventories and other bank covenants, $16.2 million was available to the Company, of which $15.4 million was being utilized. Cash and short-term deposit certificates represented a further $3.7 million in available cash resources.

On January 25, 1992 the Company had total authorized term and operating credit facilities of $57.2 million. The amount available to the Company based on margining formulas and other bank covenants was $55.2 million. Total borrowings under these facilities were $47.7 million net of cash reserves.

The Company's subsidiary in the U.K. is currently in the process of finalizing amendments to its operating loan agreement with the Midland Bank plc (the "Midland Facility"), which would increase the authorized amount of the facility to 3.5 million pounds sterling. This facility will replace two facilities, totalling 2.8 million pounds, which had been established prior to the merger by Gandalf's and Infotron's U.K. subsidiaries. The new facility would be repayable upon demand, bear interest at Midland's published base rate plus 2% and be subject to a margining formula based on the accounts receivable of the combined U.K. operations.

The Company has agreed to certain financial covenants in connection with the RBC Facility, the Chase Facility and certain operating loan agreements with RBC (the "RBC Operating Loans"). At the time of entering into these credit agreements, concurrent with the merger on August 2, 1991, it was not practicable to determine the details of Infotron assets purchased and liabilities assumed pending the resolution of certain accounting matters associated with applying the purchase method of accounting to the merger transaction. Accordingly, covenants measuring the estimated tangible net worth of the merged company (tangible assets minus liabilities) were established based on estimated amounts for Infotron as at August 2, 1991 and anticipated costs of completing the merger. The resolution of the outstanding accounting matters relating to the application of the purchase method and other adjustments based on the actual financial position of Infotron on August 2, 1991 resulted in a reduction in the Company's tangible net worth as of the date of merger and consequently also as of October 26, 1991 which led to a breach of certain financial covenants at the end of the first

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quarter of fiscal 1992.
Subsequent to the end of the first quarter of fiscal 1992, the Company negotiated
amendments to the financial covenants contained in the RBC Facility, the Chase
Facility and the RBC Operating Loans to reestablish compliance at October 26, 1991.
At January 25, 1992, the Company was in compliance with the terms of these credit
facilities.

Upon merger on August 2, 1991, the Company had combined net bank indebtedness of
$34.4 million and at the end of the second quarter of fiscal 1992 this figure was
$47.7 million. Negative cash flow of $13.3 million during the first six months
following the merger, including negative cash flow of $7.7 million in the second
quarter, has occurred as a result of the following factors: an increase in working
capital as a result of the merger; the payment of severance costs, excess operating
costs, as described earlier, and professional fees relating to the merger; and the
operating loss for the two quarters ended January 25, 1992. Operating working
capital has increased $6.0 million since the date of merger, represented primarily
by higher accounts receivable and inventories and lower levels of trade accounts
payable and other payables and accrued liabilities.

The Company expects that it will experience pressure on its cash and credit resources during the early part of the 1993 fiscal year as a result of the lower revenues and the higher than anticipated loss during the second quarter of fiscal 1992. The Company believes that its current financial base, together with existing credit facilities and the proposed Midland Facility will provide sufficient financial resources for continued operations. The Company's ability to maintain short-term liquidity and meet its cash obligations in the near term is dependant upon the Company achieving improved operating results over those achieved during the first six months of fiscal 1992. The Company's business plans, which were submitted to RBC and Chase in connection with establishing the RBC Facility and the Chase Facility respectively, anticipated that the cash flow necessary to make scheduled principal repayments in the near term would be derived from cash flow from operations commencing during the latter stages of the integration period. The Company anticipates that sufficient positive cash flow can occur during the balance of the integration period, as a result of operational savings, in order to meet its scheduled debt repayment obligations.

The Company anticipates that long-term cash requirements, including debt service and principal repayments will be satisfied through future operating cash flows and other financing arrangements including the possible refinancing of existing indebtedness.

The Company's current ratio at January 25, 1992 was 1.38:1, down from October 26, 1991 when it was 1.50:1. The decline in the current ratio during the second quarter of fiscal 1992 was caused primarily by the increase in current net bank indebtedness.

Many of the asset and liabilities categories appearing on the consolidated balance sheet at January 25, 1992 have increased significantly during the current year as a result of the merger. The impact of the merger on certain balance sheet categories is discussed in the following paragraphs.

Accounts receivable increased by $16.2 million as a result of the merger with Infotron. Accounts receivable increased by $1.6 million to $53.0 million at the end of the first quarter of fiscal 1992 as a result of billings for the quarter exceeding cash rereipts. The $2.6 million increase in accounts receivable to $55.6 million at the end of the second quarter was due almost entirely to

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increases in
foreign currency exchange rates against the Canadian dollar.

Inventories at October 26, 1991 were $38.2 million compared to $26.1 million at July
31, 1991. The increase during the first quarter arose almost entirely as a result
of the merger with Infotron. In the second quarter, inventories increased by $3.6
million to $41.8 million. Higher foreign currency exchange rates were the cause of
more than half the increase, with the balance occurring as a result of the lower
than anticipated product revenues in the quarter.

The Company's net investment in sales-type leases (representing capital leases where
the Company is the lessor) increased from $1.7 million at July 31, 1991 to $3.9
million at the end of the first quarter which remained unchanged at the end of the
second quarter. This increase arose as a result of the merger with Infotron.

Fixed assets increased significantly as a result of the merger. Capital expenditures during the first six months of fiscal 1992 were $1.6 million. These expenditures were all of an ongoing capital nature. The Company continues to closely monitor and control capital spending. Subsequent to the conclusion of the second quarter, the Company completed the sale of its $3.3 million facility located in Wheeling, Illinois, U.S.A. The purchaser has assumed the Company's obligation under a $3.2 million mortgage on the property. GSC's sales and service organization in the central region of the United States, along with the Corporate Communications group will continue to operate from leased premises in the Chicago area.

On July 31, 1991, trade accounts payable and other payables and accrued liabilities together totalled $20.6 million and on August 2, 1991, upon completing the merger with Infotron these liabilities totalled $41.0 million. The Company reduced the amount of these payables to $35.4 million at October 26, 1991 representing a decline of $5.6 million during the first quarter. The trade accounts payable and accrued liabilities of Infotron had increased significantly during the period immediately prior to merger as a result of cash flow constraints and ope.ating losses. During the second quarter of fiscal 1992, these current liabilities categories increased by $0.7 million to $36.1 million.

Deferred revenue, representing primarily the unearned portion of service and maintenance contracts, increased by $1.8 million as a result of the merger. This factor together with the effect of the timing of certain contract billings near the end of the first quarter of fiscal 1992 caused deferred revenue to increase from $4.7 million at July 31, 1991 to $8.5 million at October 26, 1991. The timing of billings associated with certain service contracts led to an increase in deferred revenue to $9.5 million at the end of the second quarter of fiscal 1992.

Long-term debt of the Company, exclusive of bank indebtedness, at January 25, 1992 was $7.1 million. The mortgage of $3.2 million on the Company's property which was sold subsequent to the end of the second quarter, as described earlier, together with the obligation under a capital lease for a manufacturing facility comprise approximately $6.0 million of this amount. The balance is represented by obligations under leases for capital equipment.

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II - OTHER INFORMATION

Item 5 - Other Information

The Company has determined, at a meeting of its Board of Directors held on December 6, 1991, to change its fiscal year end from July 31 to March 31. Accordingly, the 1992 fiscal year will end on March 31, 1992 and will cover eight months in duration. A transition report on Form 10-K will be filed for such eight month fiscal period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GANDALF TECHNOLOGIES INC.

March 6, 1992 BY: &&PIN DESMOND CUNNINGHAM

Date

Desmond Cunningham
Chairman
(Chief Executive Officer)

March 6, 1992 BY: &&PIN JAMES NEWELL

Date

James R. Newell,
Vice President,
Finance
(Chief Financial C.A.
Officer)